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LOCAL AUDIT & FINANCE DIV.

VILLAGE OF HERSEY  
Osceola County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended December 31, 2004

67-3010

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Village of Hersey	<b>County</b> Osceola
<b>Audit Date</b> December 31, 2004	<b>Opinion Date</b> April 29, 2005	<b>Date Accountant Report Submitted to State:</b> April 29, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686	<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.			

VILLAGE OF HERSEY  
Osceola County, Michigan

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Osceola County, Michigan

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# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

April 29, 2005

To the Village Council  
Village of Hersey  
Osceola County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Village of Hersey, Osceola County, Michigan as of and for the year ended December 31, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Hersey's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Village of Hersey, Osceola County, Michigan as of December 31, 2004, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of January 1, 2004.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

VILLAGE OF HERSEY  
Osceola County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2004

The Management's Discussion and Analysis report of the Village of Hersey covers the Village's financial performance during the year ended December 31, 2004.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at December 31, 2004, totaled \$239,053.25 for governmental activities and \$201,060.71 for business activities. Overall total capital assets remained approximately the same.

Overall revenues were \$259,684.53 (\$132,176.78 from governmental activities and \$127,507.75 from business-type activities). Governmental activities had a \$20,740.53 increase in net assets. Business-type activities had an increase in net assets of \$81,806.79.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Village are reported as governmental activities and business-type activities. These include the General Fund, the Major Street Fund, the Local Street Fund, the Ball Park Fund, the Cemetery Fund, the Cemetery Perpetual Care Fund and the Blodgett Landing Park Fund.

VILLAGE OF HERSEY  
Osceola County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2004

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

**Governmental Funds:** Some of the Village's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Village's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Village's governmental funds include the General Fund, the Major Street Fund, the Local Street Fund, the Ball Park Fund, and the Cemetery Fund, and the Cemetery Perpetual Care Fund.

**Business Type Funds:** The Village has a Blodgott Landing Park Fund which includes the activity of providing recreation to Village residents.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

During 2004, we completed the construction of the Blodgott Landing Park.

Total cash in bank at December 31, 2004, was \$166,705.84.

Outstanding principal on long-term debt was \$185,000.00 on December 31, 2004.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The General Fund pays for most of the Village's governmental services. The most significant is public works which incurred expenses of \$23,606.06. The Blodgott Landing Park Fund incurred \$11,443.00 in depreciation expense and \$26,365.46 in other operating expenses.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village's business-type activities invested \$166,165.26 in capital assets.

The Village's business-type activities paid \$5,000.00 of principal on the long-term debt payable.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Village Clerk or Village Treasurer at 231-832-8055.

VILLAGE OF HERSEY  
Osceola County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
December 31, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	158 525 39	8 180 45	166 705 84
Taxes receivable	11 644 96	-	11 644 96
Due from State of Michigan	12 432 71	-	12 432 71
Total Current Assets	<u>182 603 06</u>	<u>8 180 45</u>	<u>190 783 51</u>
NONCURRENT ASSETS:			
Capital Assets	57 896 13	400 516 26	458 412 39
Less: Accumulated Depreciation	<u>(8 803 71)</u>	<u>(11 443 00)</u>	<u>(20 246 71)</u>
Total Noncurrent Assets	<u>49 092 42</u>	<u>389 073 26</u>	<u>438 165 68</u>
TOTAL ASSETS	<u>231 695 48</u>	<u>397 253 71</u>	<u>628 949 19</u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	918 54	-	918 54
Payroll taxes payable	2 916 59	-	2 916 59
Internal balances	<u>(11 193 00)</u>	<u>11 193 00</u>	<u>-</u>
Total Current Liabilities	<u>(7 357 87)</u>	<u>11 193 00</u>	<u>3 835 13</u>
NONCURRENT LIABILITIES:			
Bonds payable	-	147 000 00	147 000 00
Contract payable	<u>-</u>	<u>38 000 00</u>	<u>38 000 00</u>
Total Noncurrent Liabilities	<u>-</u>	<u>185 000 00</u>	<u>185 000 00</u>
Total Liabilities	<u>(7 357 87)</u>	<u>196 193 00</u>	<u>188 835 13</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	49 092 42	192 880 26	241 972 68
Restricted	27 168 30	-	27 168 30
Unrestricted	<u>162 792 63</u>	<u>8 180 45</u>	<u>170 973 08</u>
Total Net Assets	<u>239 053 35</u>	<u>201 060 71</u>	<u>440 114 06</u>
TOTAL LIABILITIES AND NET ASSETS	<u>231 695 48</u>	<u>397 253 71</u>	<u>628 949 19</u>

The accompanying notes are an integral part of these financial statements.



VILLAGE OF HERSEY  
Osceola County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended December 31, 2004

FUNCTIONS/PROGRAMS	Expenses	Program Revenue		Governmental Activities Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	
Governmental Activities:				
Legislative	14 385 22	-	-	(14 385 22)
General government	29 777 22	510 00	-	(29 267 22)
Public safety	480 00	-	-	(480 00)
Public works	60 997 36	-	-	(60 997 36)
Recreation and culture	5 796 45	-	2 100 00	(3 696 45)
Total Governmental Activities	111 436 25	510 00	2 100 00	(108 826 25)
Business-Type Activities:				
Recreation and culture	45 700 96	17 490 30	109 959 96	-
Total Business-Type Activities	45 700 96	17 490 30	109 959 96	-
Total Government	157 137 21	18 000 30	112 059 96	(108 826 25)
General Revenues:				
Property taxes				43 848 40
State revenue sharing				77 692 65
Interest				1 507 64
Miscellaneous				6 518 09
Total General Revenues				129 566 78
Change in net assets				20 740 53
Net assets, beginning of year				218 312 82
Net Assets, End of Year				239 053 35

The accompanying notes are an integral part of these financial statements.

<u>Business-Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
-	(14 385 22)
-	(29 267 22)
-	(480 00)
-	(60 997 36)
-	(3 696 45)
-	(108 826 25)
<u>81 749 30</u>	<u>81 749 30</u>
<u>81 749 30</u>	<u>81 749 30</u>
<u>81 749 30</u>	<u>(27 076 95)</u>
-	43 848 40
-	77 692 65
57 49	1 565 13
-	6 518 09
<u>57 49</u>	<u>129 624 27</u>
81 806 79	102 547 32
<u>119 253 92</u>	<u>337 566 74</u>
<u>201 060 71</u>	<u>440 114 06</u>

VILLAGE OF HERSEY  
Osceola County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
December 31, 2004

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Cemetery Perpetual Care</u>
<u>Assets</u>				
Cash in bank	33 620 24	73 344 41	21 298 98	27 168 30
Taxes receivable	11 644 96	-	-	-
Due from State of Michigan	5 679 00	4 541 03	2 212 68	-
Due from other funds	<u>11 193 00</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>62 137 20</u>	<u>77 885 44</u>	<u>23 511 66</u>	<u>27 168 30</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	918 54	-	-	-
Payroll taxes payable	<u>2 916 59</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>3 835 13</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:				
Fund balances:				
Reserved	-	-	-	27 168 30
Unreserved:				
Undesignated	<u>58 302 07</u>	<u>77 885 44</u>	<u>23 511 66</u>	<u>-</u>
Total fund equity	<u>58 302 07</u>	<u>77 885 44</u>	<u>23 511 66</u>	<u>27 168 30</u>
Total Liabilities and Fund Equity	<u>62 137 20</u>	<u>77 885 44</u>	<u>23 511 66</u>	<u>27 168 30</u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
3 093 46	158 525 39
-	11 644 96
-	12 432 71
-	11 193 00
<u>3 093 46</u>	<u>193 796 06</u>

-	918 54
-	2 916 59
-	3 835 13

-	27 168 30
<u>3 093 46</u>	<u>162 792 63</u>
<u>3 093 46</u>	<u>189 960 93</u>
<u>3 093 46</u>	<u>193 796 06</u>

VILLAGE OF HERSEY  
Osceola County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
December 31, 2004

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS 189 960 93

Amounts reported for governmental activities in the statement of  
net assets are different because –

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost	57 896 13
Accumulated depreciation	(8 803 71)

Long-term debt liabilities are not due and payable in the current period and  
therefore are not reported in the governmental funds:

Long-term debt	<u>-</u>
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TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>239 053 35</u></u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF HERSEY  
Osceola County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended December 31, 2004

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Cemetery Perpetual Care</u>
Revenues:				
Property taxes	43 848 40	-	-	-
Licenses and permits	60 00	-	-	-
State revenue sharing	32 218 00	30 536 26	14 938 39	-
Charges for services	-	-	-	-
Interest	38 73	614 20	166 14	679 40
Miscellaneous	6 518 09	-	-	-
Total revenues	<u>82 683 22</u>	<u>31 150 46</u>	<u>15 104 53</u>	<u>679 40</u>
Expenditures:				
Legislative:				
Village Council	14 385 22	-	-	-
General government:				
President	1 500 00	-	-	-
Elections	1 226 22	-	-	-
Audit	3 900 00	-	-	-
Clerk	8 001 04	-	-	-
Treasurer	3 855 96	-	-	-
Village hall and grounds	6 579 00	-	-	-
Cemetery	-	-	-	-
Public safety:				
Planning and zoning	480 00	-	-	-
Public works:				
Department of Public Works	18 175 27	-	-	-
Highways and streets	-	23 164 02	12 067 87	-
Street lighting	5 430 79	-	-	-
Recreation and culture:				
Recreation	-	-	-	-
Parks	1 296 65	-	-	-
Total expenditures	<u>64 830 15</u>	<u>23 164 02</u>	<u>12 067 87</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>17 853 07</u>	<u>7 986 44</u>	<u>3 036 66</u>	<u>679 40</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(5 580 00)	-	-	(679 40)
Total other financing sources (uses)	<u>(5 580 00)</u>	<u>-</u>	<u>-</u>	<u>(679 40)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	12 273 07	7 986 44	3 036 66	-
Fund balances, January 1	<u>46 029 00</u>	<u>69 899 00</u>	<u>20 475 00</u>	<u>27 168 30</u>
Fund Balances, December 31	<u>58 302 07</u>	<u>77 885 44</u>	<u>23 511 66</u>	<u>27 168 30</u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
-	43 848 40
-	60 00
-	77 692 65
450 00	450 00
9 17	1 507 64
<u>2 100 00</u>	<u>8 618 09</u>
<u>2 559 17</u>	<u>132 176 78</u>

-	14 385 22
-	1 500 00
-	1 226 22
-	3 900 00
-	8 001 04
-	3 855 96
-	6 579 00
4 715 00	4 715 00

-	480 00
-	18 175 27
-	35 231 89
-	5 430 79

4 499 80	4 499 80
<u>-</u>	<u>1 296 65</u>
<u>9 214 80</u>	<u>109 276 84</u>

<u>(6 655 63)</u>	<u>22 899 94</u>
-------------------	------------------

6 259 40	6 259 40
-	(6 259 40)
<u>6 259 40</u>	<u>-</u>

(396 23)	22 899 94
<u>3 489 69</u>	<u>167 060 99</u>
<u>3 093 46</u>	<u>189 960 93</u>

VILLAGE OF HERSEY  
Osceola County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended December 31, 2004

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 22 899 94

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense (2 159 41)  
Capital Outlay -

Repayment of debt principal is an expenditure in the governmental funds, the  
repayment does not have an effect in the statement of activities but does  
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt -

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 20 740 53

The accompanying notes are an integral part of these financial statements.



VILLAGE OF HERSEY  
Osceola County, Michigan

STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS  
December 31, 2004

	<u>Blodgett Landing Park Fund</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>8 180 45</u>
Total Current Assets	<u>8 180 45</u>
NONCURRENT ASSETS:	
Capital Assets	400 516 26
Less: Accumulated Depreciation	<u>(11 443 00)</u>
Total Noncurrent Assets	<u>389 073 26</u>
TOTAL ASSETS	<u><u>397 253 71</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Due to General Fund	<u>11 193 00</u>
Total Current Liabilities	<u>11 193 00</u>
NONCURRENT LIABILITIES:	
Bonds payable	147 000 00
Contract payable	<u>38 000 00</u>
Total Noncurrent Liabilities	<u>185 000 00</u>
Total Liabilities	<u>196 193 00</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	192 880 26
Unrestricted	<u>8 180 45</u>
Total Net Assets	<u>201 060 71</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>397 253 71</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HERSEY  
Osceola County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
BUSINESS-TYPE FUNDS  
Year ended December 31, 2004

	<u>Blodgett Landing Park Fund</u>
OPERATING REVENUES:	
Charges for services	11 845 30
Miscellaneous	<u>5 645 00</u>
Total Operating Revenues	<u>17 490 30</u>
OPERATING EXPENSES:	
Culture and recreation:	
Wages	8 539 88
Payroll taxes	612 14
Supplies	5 291 50
Utilities	2 614 70
Repairs and maintenance	7 785 01
Miscellaneous	1 522 23
Depreciation	<u>11 443 00</u>
Total Operating Expenses	<u>37 808 46</u>
Operating Income (loss)	<u>(20 318 16)</u>
NONOPERATING REVENUES (EXPENSES):	
State grant	109 959 96
Interest income	57 49
Interest expense	<u>(7 892 50)</u>
Total Nonoperating Expenses	<u>102 124 95</u>
Change in net assets	81 806 79
Net assets, beginning of year	<u>119 253 92</u>
Net Assets, End of Year	<u>201 060 71</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HERSEY  
Osceola County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS TYPE FUNDS  
Year ended December 31, 2004

	<u>Blodgett Landing Park Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	17 490 30
Cash payments to employees for services	(8 539 88)
Cash payments to suppliers	<u>(17 825 58)</u>
Net cash provided (used) by operating activities	<u>(8 875 16)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>	
Net borrowings (repayments) with other funds	<u>8 000 00</u>
Net cash provided (used) by non-capital financing activities	<u>8 000 00</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Proceeds from state grant	109 959 96
Additions to capital assets	(166 165 26)
Principal on long-term debt	(5 000 00)
Interest on long-term debt	<u>(7 892 50)</u>
Net cash provided (used) by capital and related financing activities	<u>(69 097 80)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest on investments	<u>57 49</u>
Net increase (decrease) in cash	(69 915 47)
Cash beginning of year	<u>78 095 92</u>
Cash End of Year	<u><u>8 180 45</u></u>
<b>RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Income (loss) from operations	(20 318 16)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	<u>11 443 00</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(8 875 16)</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HERSEY  
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Hersey, Osceola County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Hersey. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business-type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF HERSEY  
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

General and Special Revenue Funds

The General Fund, the Major Street Fund, the Local Street Fund, the Ball Park Fund and the Cemetery Fund receive and account for the monies collected to provide the general governmental services of the Village. The General Fund is used to account for all transactions not properly accounted for in any other fund.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Blodgett Landing Park enterprise fund are charges to customers for services. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Permanent Fund

The Cemetery Perpetual Care Fund reports resources that are legally restricted.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31. The Village 2003 tax roll millage rate was 10.6815 mills, and the taxable value was \$4,105,182.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

VILLAGE OF HERSEY  
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	35 years
Vehicles and equipment	15 years

Compensated Absences (Vacation and Sick Leave)

Village employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective January 1, 2004, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Village's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Village's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$49,092.42.

VILLAGE OF HERSEY  
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated two banks for the deposit of Village funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>166 705 84</u>

VILLAGE OF HERSEY  
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	107 000 00
Uninsured and Uncollateralized	<u>61 357 56</u>
Total Deposits	<u>168 357 56</u>

The Village of Hersey did not have any investments as of December 31, 2004.

Note 4 – Capital Assets

Capital asset activity of the Village's Governmental and Business-Type activities for the current year was as follows:

	<u>Balance 1/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/04</u>
<u>Governmental Activities:</u>				
Land	25 505 00	-	-	25 505 00
Equipment	<u>32 391 13</u>	-	-	<u>32 391 13</u>
Total	57 896 13	-	-	57 896 13
Accumulated Depreciation	<u>(6 644 30)</u>	<u>(2 159 41)</u>	-	<u>(8 803 71)</u>
Net Governmental Capital Assets	<u>51 251 83</u>	<u>(2 159 41)</u>	-	<u>49 092 42</u>
<u>Business-Type Activities:</u>				
Blodgett Landing Park	234 351 00	166 165 26	-	400 516 26
Accumulated Depreciation	-	<u>(11 443 00)</u>	-	<u>(11 443 00)</u>
Net Business-Type Capital Assets	<u>234 351 00</u>	<u>154 722 26</u>	-	<u>389 073 26</u>

Note 5 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>11 093 00</u>	Blodgett Landing Park	<u>11 093 00</u>
Total	<u>11 093 00</u>	Total	<u>11 093 00</u>



VILLAGE OF HERSEY  
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

**Note 6 – Changes in Long-Term Debt**

A summary of changes in long-term debt follows:

	<u>Blodgett Landing Park Fund</u>		
	<u>Bonds Payable</u>		<u>Contract Payable</u>
Debt Payable – Beginning of Year	150 000 00	40 000 00	190 000 00
Debt Retired	<u>3 000 00</u>	<u>2 000 00</u>	<u>5 000 00</u>
Debt Payable – End of Year	<u><u>147 000 00</u></u>	<u><u>38 000 00</u></u>	<u><u>185 000 00</u></u>
 <u>General Obligation, Limited Tax Bonds</u>			
\$150,000.00, 2003 Blodgett Park bonds due in annual installments of \$3,000.00 to \$15,000.00 through November 1, 2023; interest from 2.30% to 4.40%			147 000 00
 <u>Installment Purchase Agreement</u>			
\$40,000.00 Blodgett Park installment agreement is due in annual installments of \$2,000.00 to \$3,000.00 through November 1, 2018; plus interest at 4.64%			<u>38 000 00</u>
Total			<u><u>185 000 00</u></u>

The annual requirements to amortize all debt outstanding for the reporting entity as of December 31, 2004, including interest payments of \$91,233.00 are as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	<u>Installment Purchase Agreement</u>	<u>Total</u>
2005	9 968 00	3 763 00	13 731 00
2006	9 864 00	3 670 00	13 534 00
2007	9 747 00	4 078 00	13 825 00
2008	10 623 00	3 962 00	14 585 00
2009-2031	<u>183 983 00</u>	<u>36 575 00</u>	<u>220 558 00</u>
Total	<u><u>224 185 00</u></u>	<u><u>52 048 00</u></u>	<u><u>276 233 00</u></u>

**Note 7 – Blodgett Landing Park Bonds Payable**

<u>TITLE OF ISSUE</u>	Village Share Bonds Series 2003
<u>PURPOSE</u>	Construction of Blodgett Landing Park
<u>DATE OF ISSUE</u>	June 2, 2003
<u>INTEREST RATE</u>	2.30% TO 4.40%
<u>INTEREST PAYABLE</u>	November 1

VILLAGE OF HERSEY  
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

Note 7 – Blodgett Landing Park Bonds Payable (continued)

<u>AMOUNT OF ISSUE</u>	150 000 00
<u>AMOUNT REDEEMED</u>	
Prior to Current Period	-
During Current Period	<u>3 000 00</u>
<u>BALANCE OUTSTANDING</u> – December 31, 2004	<u>147 000 00</u>

SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS

<u>Due Date</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
November 1, 2005	9 968 00	5 968 00	4 000 00
November 1, 2006	9 864 00	5 864 00	4 000 00
November 1, 2007	9 747 00	5 747 00	4 000 00
November 1, 2008	10 623 00	5 623 00	5 000 00
November 1, 2009	10 459 00	5 459 00	5 000 00
November 1, 2010	10 286 00	5 286 00	5 000 00
November 1, 2011	10 106 00	5 106 00	5 000 00
November 1, 2012	10 919 00	4 919 00	6 000 00
November 1, 2013	10 684 00	4 684 00	6 000 00
November 1, 2014	10 445 00	4 445 00	6 000 00
November 1, 2015	11 198 00	4 198 00	7 000 00
November 1, 2016	10 905 00	3 905 00	7 000 00
November 1, 2017	11 607 00	3 607 00	8 000 00
November 1, 2018	11 267 00	3 267 00	8 000 00
November 1, 2019	14 923 00	2 923 00	12 000 00
November 1, 2020	15 407 00	2 407 00	13 000 00
November 1, 2021	14 841 00	1 841 00	13 000 00
November 1, 2022	15 276 00	1 276 00	14 000 00
November 1, 2023	<u>15 660 00</u>	<u>660 00</u>	<u>15 000 00</u>
Total	<u>224 185 00</u>	<u>77 185 00</u>	<u>147 000 00</u>

PRIOR REDEMPTION

Bonds will be subject to redemption prior to maturity at the option of the Village, in any order, in whole or part, in integral multiples of \$1,000.00, on any date, at par, plus accrued interest to the redemption date.

Note 8 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 9 – Pension Plan

The Village does not have a pension plan.

VILLAGE OF HERSEY  
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

Note 10 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 11 – Reserved Fund Balances

The fund balance in the Cemetery Perpetual Care Fund includes a reservation of \$27,168.20.

Note 12 – Transfers In and Transfers Out

For the fiscal year ended December 31, 2004, the Village made the following interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	-	6 259 40
Ball Park	500 00	-
Cemetery	5 759 40	-
Total	<u>6 259 40</u>	<u>6 259 40</u>

Note 13 – Building Permits

The Village does not issue building permits.

VILLAGE OF HERSEY  
Osceola County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended December 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	42 000 00	42 000 00	43 848 40	1 848 40
Licenses and permits	150 00	60 00	60 00	-
State revenue sharing	30 000 00	28 575 00	32 218 00	3 643 00
Interest	50 00	35 00	38 73	3 73
Miscellaneous	<u>1 500 00</u>	<u>1 500 00</u>	<u>6 518 09</u>	<u>5 018 09</u>
Total revenues	<u>73 700 00</u>	<u>72 170 00</u>	<u>82 683 22</u>	<u>10 513 22</u>
Expenditures:				
Legislative:				
Village Council	25 000 00	25 000 00	14 385 22	(10 614 78)
General government:				
President	2 000 00	2 000 00	1 500 00	(500 00)
Elections	1 220 00	1 230 00	1 226 22	(3 78)
Audit	3 900 00	3 900 00	3 900 00	-
Clerk	10 650 00	10 675 00	8 001 04	(2 673 96)
Treasurer	4 600 00	4 600 00	3 855 96	(744 04)
Village hall and grounds	7 000 00	7 000 00	6 579 00	(421 00)
Public safety:				
Planning and zoning	600 00	600 00	480 00	(120 00)
Public works:				
Department of Public Works	20 000 00	20 000 00	18 175 27	(1 824 73)
Street lighting	5 500 00	5 500 00	5 430 79	(69 21)
Recreation and culture:				
Parks	1 500 00	1 500 00	1 296 65	(203 35)
Contingency	<u>15 800 00</u>	<u>25 824 00</u>	<u>-</u>	<u>(25 824 00)</u>
Total expenditures	<u>97 770 00</u>	<u>107 829 00</u>	<u>64 830 15</u>	<u>(42 998 85)</u>
Excess (deficiency) of revenues over expenditures	<u>(24 070 00)</u>	<u>(35 659 00)</u>	<u>17 853 07</u>	<u>53 512 07</u>
Other financing sources (uses):				
Operating transfers out	<u>(6 000 00)</u>	<u>(6 000 00)</u>	<u>(5 580 00)</u>	<u>420 00</u>
Total other financing sources (uses)	<u>(6 000 00)</u>	<u>(6 000 00)</u>	<u>(5 580 00)</u>	<u>420 00</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(30 070 00)</u>	<u>(41 659 00)</u>	<u>12 273 07</u>	<u>53 932 07</u>
Fund balance, January 1	<u>30 070 00</u>	<u>41 659 00</u>	<u>46 029 00</u>	<u>4 370 00</u>
Fund Balance, December 31	<u>-</u>	<u>-</u>	<u>58 302 07</u>	<u>58 302 07</u>

VILLAGE OF HERSEY  
Osceola County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND  
Year ended December 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	24 000 00	24 000 00	30 536 26	6 536 26
Interest	<u>200 00</u>	<u>590 00</u>	<u>614 20</u>	<u>24 20</u>
Total revenues	<u>24 200 00</u>	<u>24 590 00</u>	<u>31 150 46</u>	<u>6 560 46</u>
Expenditures:				
Public works:				
Highways and streets	<u>46 730 00</u>	<u>55 373 00</u>	<u>23 164 02</u>	<u>(32 208 98)</u>
Total expenditures	<u>46 730 00</u>	<u>55 373 00</u>	<u>23 164 02</u>	<u>(32 208 98)</u>
Excess (deficiency) of revenues over expenditures	(22 530 00)	(30 783 00)	7 986 44	38 769 44
Fund balance, January 1	<u>67 900 00</u>	<u>64 120 00</u>	<u>69 899 00</u>	<u>5 779 00</u>
Fund Balance, December 31	<u><u>45 370 00</u></u>	<u><u>33 337 00</u></u>	<u><u>77 885 44</u></u>	<u><u>44 548 44</u></u>

VILLAGE OF HERSEY  
Osceola County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND  
Year ended December 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	15 000 00	14 970 00	14 938 39	(31 61)
Interest	55 00	159 00	166 14	7 14
Total revenues	<u>15 055 00</u>	<u>15 129 00</u>	<u>15 104 53</u>	<u>(24 47)</u>
Expenditures:				
Public works:				
Highways and streets	<u>18 177 00</u>	<u>19 951 00</u>	<u>12 067 87</u>	<u>(7 883 13)</u>
Total expenditures	<u>18 177 00</u>	<u>19 951 00</u>	<u>12 067 87</u>	<u>(7 883 13)</u>
Excess (deficiency) of revenues over expenditures	(3 122 00)	(4 822 00)	3 036 66	7 858 66
Fund balance, January 1	<u>29 400 00</u>	<u>19 760 00</u>	<u>20 475 00</u>	<u>715 00</u>
Fund Balance, December 31	<u>26 278 00</u>	<u>14 938 00</u>	<u>23 511 66</u>	<u>8 573 66</u>

VILLAGE OF HERSEY  
Osceola County, Michigan

BUDGETARY COMPARISON SCHEDULE – CEMETERY PERPETUAL CARE FUND  
Year ended December 31, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Interest	<u>395 00</u>	<u>670 00</u>	<u>679 40</u>	<u>9 40</u>
Total revenues	<u>395 00</u>	<u>670 00</u>	<u>679 40</u>	<u>9 40</u>
Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>395 00</u>	<u>670 00</u>	<u>679 40</u>	<u>9 40</u>
Other financing sources (uses):				
Operating transfers out	<u>(120 00)</u>	<u>(700 00)</u>	<u>(679 40)</u>	<u>(20 60)</u>
Total other financing sources (uses)	<u>(120 00)</u>	<u>(700 00)</u>	<u>(679 40)</u>	<u>(20 60)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>275 00</u>	<u>(30 00)</u>	<u>-</u>	<u>30 00</u>
Fund balance, January 1	<u>27 000 00</u>	<u>27 000 00</u>	<u>27 168 30</u>	<u>168 30</u>
Fund Balance, December 31	<u>27 275 00</u>	<u>26 970 00</u>	<u>27 168 30</u>	<u>198 30</u>

VILLAGE OF HERSEY  
Osceola County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended December 31, 2004

Village Council:	
Wages	4 340 00
Professional services	1 702 75
Printing and publishing	673 65
Insurance	6 120 00
Miscellaneous	1 548 82
	<u>14 385 22</u>
President:	
Wages	1 500 00
	<u>1 500 00</u>
Elections:	
Wages	365 50
Supplies	557 77
Miscellaneous	302 95
	<u>1 226 22</u>
Clerk:	
Salary	4 800 00
Salary – deputy clerk	675 00
Office supplies	1 086 64
Office rent	600 00
Miscellaneous	839 40
	<u>8 001 04</u>
Treasurer:	
Salary	2 503 20
Office supplies	500 28
Professional services	252 48
Office rent	600 00
	<u>3 855 96</u>
Village hall and grounds:	
Insurance	472 00
Utilities	1 133 86
Repairs and maintenance	4 973 14
	<u>6 579 00</u>
Planning and zoning:	
Wages	480 00
	<u>480 00</u>
Department of Public Works:	
Wages	9 610 00
Operating supplies	1 819 78
Sidewalks	335 59
Utilities	1 866 43
Repairs and maintenance	4 543 47
	<u>18 175 27</u>
Street lighting:	
Utilities	5 430 79
	<u>5 430 79</u>
Parks:	
Salaries	580 00
Repairs and maintenance	466 86
Miscellaneous	249 79
	<u>1 296 65</u>
Total Expenditures	<u>64 930 15</u>



VILLAGE OF HERSEY  
Osceola County, Michigan

COMBINING BALANCE SHEET - ALL SPECIAL REVENUE FUNDS  
December 31, 2004

<u>Assets</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Ball Park</u>	<u>Cemetery</u>
Cash in bank	73 344 41	21 298 98	113 90	2 979 56
Due from State of Michigan	<u>4 541 03</u>	<u>2 212 68</u>	<u>-</u>	<u>-</u>
Total Assets	<u><u>77 885 44</u></u>	<u><u>23 511 66</u></u>	<u><u>113 90</u></u>	<u><u>2 979 56</u></u>
<u>Liabilities and Fund Balances</u>				
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Unreserved:				
Undesignated	<u>77 885 44</u>	<u>23 511 66</u>	<u>113 90</u>	<u>2 979 56</u>
Total fund balances	<u><u>77 885 44</u></u>	<u><u>23 511 66</u></u>	<u><u>113 90</u></u>	<u><u>2 979 56</u></u>
Total Liabilities and Fund Balances	<u><u>77 885 44</u></u>	<u><u>23 511 66</u></u>	<u><u>113 90</u></u>	<u><u>2 979 56</u></u>

Total

97 736 85

6 753 71

104 490 56

-

-

104 490 56

104 490 56

104 490 56

VILLAGE OF HERSEY  
Osceola County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
ALL SPECIAL REVENUE FUNDS  
Year ended December 31, 2004

	<u>Major Street</u>	<u>Local Street</u>	<u>Ball Park</u>	<u>Cemetery</u>
Revenues:				
State revenue sharing	30 536 26	14 938 39	-	-
Charges for services	-	-	-	450 00
Interest	614 20	166 14	2 15	7 02
Miscellaneous	-	-	2 100 00	-
Total revenues	<u>31 150 46</u>	<u>15 104 53</u>	<u>2 102 15</u>	<u>457 02</u>
Expenditures:				
General government:				
Cemetery	-	-	-	4 715 00
Public works:				
Highways and streets	23 164 02	12 067 87	-	-
Culture and recreation:				
Recreation	-	-	4 499 80	-
Total expenditures	<u>23 164 02</u>	<u>12 067 87</u>	<u>4 499 80</u>	<u>4 715 00</u>
Excess (deficiency) of revenues over expenditures	<u>7 986 44</u>	<u>3 036 66</u>	<u>(2 397 65)</u>	<u>(4 257 98)</u>
Other financing sources (uses):				
Operating transfers in	-	-	500 00	5 759 40
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>500 00</u>	<u>5 759 40</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	7 986 44	3 036 66	(1 897 65)	1 501 42
Fund balances, January 1	<u>69 899 00</u>	<u>20 475 00</u>	<u>2 011 55</u>	<u>1 478 14</u>
Fund Balances, December 31	<u><u>77 885 44</u></u>	<u><u>23 511 66</u></u>	<u><u>113 90</u></u>	<u><u>2 979 56</u></u>

Total  
45 474 65  
450 00  
789 51  
2 100 00

48 814 16

4 715 00  
35 231 89  
4 499 80

44 446 69

4 367 47

6 259 40  
6 259 40

10 626 87  
93 863 69  
104 490 56

VILLAGE OF HERSEY  
Osceola County, Michigan

BALANCE SHEET – PERMANENT FUND  
December 31, 2004

	Cemetery Perpetual Care
<u>Assets</u>	
Cash in bank	<u>27 168 30</u>
Total Assets	<u>27 168 30</u>
<u>Liabilities and Fund Balance</u>	
Liabilities:	
Total liabilities	<u>-</u>
Fund balance:	
Reserved	<u>27 168 30</u>
Total fund balance	<u>27 168 30</u>
Total Liabilities and Fund Balance	<u>27 168 30</u>

VILLAGE OF HERSEY  
Osceola County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –  
PERMANENT FUND  
Year ended December 31, 2004

	<u>Cemetery Perpetual Care</u>
Revenues:	
Interest	<u>679 40</u>
Total revenues	<u>679 40</u>
Expenditures	<u>-</u>
Total expenditures	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>679 40</u>
Other financing sources (uses):	
Operating transfers out	<u>(679 40)</u>
Total other financing sources (uses)	<u>(679 40)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>-</u>
Fund balance, January 1	<u>27 168 30</u>
Fund Balance, December 31	<u><u>27 168 30</u></u>

# **CAMPBELL, KUSTERER & CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

April 29, 2005

To the Village Council  
Village of Hersey  
Osceola County, Michigan

We have audited the financial statements of the Village of Hersey for the year ended December 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Village of Hersey in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council  
Village of Hersey  
Osceola County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended December 31, 2004. The implementation of this pronouncement for the Village of Hersey began with the year ended December 31, 2004. The daily operations and recording transactions did not change significantly, however, the Village is required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated December 31, 2004.



To the Village Council  
Village of Hersey  
Osceola County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants